STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841
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March 31, 2003

MEMORANDUM

TO: County Executives
Highway Superintendents
Directors of Schools
Finance Directors

FROM: Richard V. Norment
Assistant to the Comptroller

SUBJECT: Financial Reporting Standards for County Governments, Component Units of County Governments and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement is the most significant change in the history of public sector accounting and financial reporting. The statement is required to be implemented either for fiscal years ending June 30, 2002, 2003, or 2004, depending on a county's revenues. We have attached the implementation schedule for Tennessee counties. (Attachment A)

GASB Statement 34 establishes financial reporting standards and generally accepted accounting principles for state and local governments. The Comptroller of the Treasury has always required and strongly encouraged local governments to issue financial statements in conformity with generally accepted accounting principles. The failure to implement the standard will result in an auditor's report that presents an adverse opinion on the county's financial statements. An adverse opinion states that the county's financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the county, or the changes in its financial position or cash flows.

Due to the complexity of Statement 34 and the effort required to implement the statement, the Comptroller is aware that all county governments may not implement the statement by the required date. Any county government that does not implement Statement 34 by the required date will be required to issue an Annual Financial Report in compliance with *Financial Reporting Standards For County Governments, Component Units of County Governments and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34* established by the Comptroller of the Treasury. The auditor's report will express an opinion on the presentation of the basic financial statements in accordance with the basis of accounting prescribed by the financial reporting standards of the Comptroller of the Treasury. However, there will be an adverse opinion on the county's basic financial statements because of the county's failure to comply with Statement 34. The financial reporting standards established by the Comptroller of the Treasury, State of Tennessee, for counties that do not implement GASB Statement 34 are enclosed as Attachment B. All audits of county governments will continue to be performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations.*

The Financial Reporting Standards established by the Comptroller of the Treasury include the form and content of the annual financial report for any county that does not implement GASB Statement 34 by the required date. Highlights of the form and content of the annual financial report are as follows:

1. The annual financial report will include fund financial statements prepared on a prescribed basis of accounting that demonstrates compliance with financial reporting standards established by the Comptroller of the Treasury, State of Tennessee. These standards will require the fund financial statements to be presented in conformity with provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. Additional note disclosures as required by GASB Statement 34 for long-term debt will be required to be included in the notes to the financial statements. These standards will also require the fund financial statements to be presented in conformity with all other generally accepted accounting principles (GAAP) that are applicable to fund financial statements.

2. The annual financial report will not include the two government-wide statements required by Statement 34: a statement of net assets and a statement of activities.

3. The annual financial report will include an introductory section, combining and individual fund section, and statistical section. The Comptroller of the Treasury determines the required statements, schedules, and other information

to be included in these sections. County governments should maintain records for capital assets used in governmental operations even though those records may not meet all the reporting requirements of GASB Statement 34. If the county maintains capital asset records that reflect the historical value of capital assets, two additional tables will be required for the statistical section of the annual financial report. The annual financial report will also include a single audit section that contains the applicable auditor's reports and schedules required by *Government Auditing Standards* and OMB Circular A-133.

4. Discretely presented component units are required to be reported in a separate column on the government-wide financial statements by GASB Statement 34. However, counties that do not implement GASB Statement 34 will not be presenting government-wide financial statements. Therefore, financial statements for component units that meet the criteria for discrete presentation will not be presented in the annual financial report of the primary government of the county. Note disclosures for these component units as required by GAAP will be included in the notes to the financial statements.

5. The county school department is a component unit that meets the criteria for discrete presentation and whose financial statements will not be presented in the annual financial report of the primary government of the county. A separate annual financial report will be required for the county school department. This annual financial report will follow the same financial reporting standards prescribed by the Comptroller of the Treasury for the primary government of the county.

6. The annual financial report of the county school department will be presented as a separate report but published under the same cover as the primary government of the county.

An example annual financial report is enclosed as Attachment C. The financial statements and notes included in the example annual financial report are presented for illustrative purposes only. Therefore, disclosures presented in the example notes are not always consistent with the example financial statements. GASB Statement 34 and all other generally accepted accounting principles applicable to fund financial statements should be referenced to ensure conformity with the provisions of those standards. Illustrative financial statements are not presented for all financial statements and schedules listed in the example table of contents. All items listed in the example table of contents are required if applicable in the circumstances. The enclosed example annual financial report contains the following:

- A table of contents that lists all the financial statements, schedules, and other information that is required to be in the report, if applicable in the circumstances

- An illustration of an auditor's report with all the relevant aspects required by generally accepted auditing standards and the reporting standards established by the Comptroller of the Treasury

- Example financial statements and notes to the financial statements

Again, the Comptroller of the Treasury strongly recommends that all county governments implement GASB Statement 34 by the required implementation date. However, if a county does not implement GASB Statement 34, then the financial statements should be presented in compliance with financial reporting standards established by the Comptroller of the Treasury, State of Tennessee, for counties that do not implement GASB Statement 34. Any questions should be directed to the Division of County Audit.

Enclosures:
Attachment A: County Government Implementation Schedule
Attachment B: Financial Reporting Standards for County Governments, Component Units of County Governments and Special School Districts That Do Not Implement GASB Statement 34
Attachment C: Example Annual Financial Report

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GASB 34
EFFECTIVE IMPLEMENTATION DATES
PRIMARY GOVERNMENT REVENUES
JUNE 30, 1999

Note: Does not include revenues from discretely presented component units, trust funds, and internal service funds.

	County		Total Revenues	GASB 34 Effective Date	Phase
1	Anderson	$	23,802,824	6/30/2003	Phase 2
2	Bedford		40,459,094	6/30/2003	Phase 2
3	Benton		22,203,158	6/30/2003	Phase 2
4	Bledsoe		4,529,880	6/30/2004	Phase 3
5	Blount		32,186,105	6/30/2003	Phase 2
6	Bradley		32,319,082	6/30/2003	Phase 2
7	Campbell		15,276,065	6/30/2003	Phase 2
8	Cannon		4,976,198	6/30/2004	Phase 3
9	Carroll		33,066,171	6/30/2003	Phase 2
10	Carter		13,739,876	6/30/2003	Phase 2
11	Cheatham		16,156,691	6/30/2003	Phase 2
12	Chester		6,186,187	6/30/2004	Phase 3
13	Claiborne		7,538,614	6/30/2004	Phase 3
14	Clay		4,050,054	6/30/2004	Phase 3
15	Cocke		11,939,364	6/30/2003	Phase 2
16	Coffee		15,975,529	6/30/2003	Phase 2
17	Crockett		6,625,966	6/30/2004	Phase 3
18	Cumberland		17,487,000	6/30/2003	Phase 2
19	Davidson		1,404,400,180	6/30/2002	Phase 1
20	Decatur		5,141,880	6/30/2004	Phase 3
21	Dekalb		6,367,780	6/30/2004	Phase 3
22	Dickson		21,616,549	6/30/2003	Phase 2
23	Dyer		12,281,031	6/30/2003	Phase 2
24	Fayette		11,839,650	6/30/2003	Phase 2
25	Fentress		7,498,173	6/30/2004	Phase 3
26	Franklin		13,258,588	6/30/2003	Phase 2
27	Gibson		13,918,043	6/30/2003	Phase 2
28	Giles		13,808,850	6/30/2003	Phase 2
29	Grainger		5,991,976	6/30/2004	Phase 3

Prepared by:
Division Of County Audit

	County		Total Revenues	GASB 34 Effective Date	Phase
30	Greene	$	19,944,518	6/30/2003	Phase 2
31	Grundy		5,343,991	6/30/2004	Phase 3
32	Hamblen		16,920,081	6/30/2003	Phase 2
33	Hamilton		159,521,129	6/30/2002	Phase 1
34	Hancock		4,668,869	6/30/2004	Phase 3
35	Hardeman		8,562,227	6/30/2004	Phase 3
36	Hardin		12,537,365	6/30/2003	Phase 2
37	Hawkins		15,071,174	6/30/2003	Phase 2
38	Haywood		10,831,825	6/30/2003	Phase 2
39	Henderson		8,509,982	6/30/2004	Phase 3
40	Henry		10,843,068	6/30/2003	Phase 2
41	Hickman		8,422,143	6/30/2004	Phase 3
42	Houston		3,889,810	6/30/2004	Phase 3
43	Humphreys		10,106,145	6/30/2003	Phase 2
44	Jackson		5,182,091	6/30/2004	Phase 3
45	Jefferson		15,175,024	6/30/2003	Phase 2
46	Johnson		7,028,124	6/30/2004	Phase 3
47	Knox		152,265,508	6/30/2002	Phase 1
48	Lake		5,277,885	6/30/2004	Phase 3
49	Lauderdale		9,722,313	6/30/2004	Phase 3
50	Lawrence		14,193,184	6/30/2003	Phase 2
51	Lewis		5,746,572	6/30/2004	Phase 3
52	Lincoln		34,178,322	6/30/2003	Phase 2
53	Loudon		12,436,987	6/30/2003	Phase 2
54	Macon		6,419,848	6/30/2004	Phase 3
55	Madison		40,606,540	6/30/2003	Phase 2
56	Marion		9,483,998	6/30/2004	Phase 3
57	Marshall		11,072,500	6/30/2003	Phase 2
58	Maury		176,609,974	6/30/2002	Phase 1
59	McMinn		15,602,895	6/30/2003	Phase 2
60	McNairy		8,356,518	6/30/2004	Phase 3
61	Meigs		4,612,425	6/30/2004	Phase 3
62	Monroe		11,672,790	6/30/2003	Phase 2
63	Montgomery		62,380,874	6/30/2003	Phase 2
64	Moore		4,536,567	6/30/2004	Phase 3
65	Morgan		7,321,622	6/30/2004	Phase 3
66	Obion		15,008,810	6/30/2003	Phase 2

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Division Of County Audit

	County		Total Revenues	GASB 34 Effective Date	Phase
67	Overton	$	7,849,217	6/30/2004	Phase 3
68	Perry		4,936,271	6/30/2004	Phase 3
69	Pickett		4,329,294	6/30/2004	Phase 3
70	Polk		6,373,097	6/30/2004	Phase 3
71	Putnam		24,314,413	6/30/2003	Phase 2
72	Rhea		12,404,015	6/30/2003	Phase 2
73	Roane		14,071,566	6/30/2003	Phase 2
74	Robertson		20,425,297	6/30/2003	Phase 2
75	Rutherford		73,290,457	6/30/2003	Phase 2
76	Scott		8,542,220	6/30/2004	Phase 3
77	Sequatchie		4,164,014	6/30/2004	Phase 3
78	Sevier		25,712,126	6/30/2003	Phase 2
79	Shelby		648,928,134	6/30/2002	Phase 1
80	Smith		6,987,331	6/30/2004	Phase 3
81	Stewart		5,361,804	6/30/2004	Phase 3
82	Sullivan		41,515,121	6/30/2003	Phase 2
83	Sumner		39,326,462	6/30/2003	Phase 2
84	Tipton		17,205,473	6/30/2003	Phase 2
85	Trousdale		4,140,946	6/30/2004	Phase 3
86	Unicoi		6,899,457	6/30/2004	Phase 3
87	Union		5,528,241	6/30/2004	Phase 3
88	Van Buren		3,180,867	6/30/2004	Phase 3
89	Warren		14,421,552	6/30/2003	Phase 2
90	Washington		29,598,527	6/30/2003	Phase 2
91	Wayne		7,541,754	6/30/2004	Phase 3
92	Weakley		11,369,002	6/30/2003	Phase 2
93	White		9,268,080	6/30/2004	Phase 3
94	Williamson		72,943,451	6/30/2003	Phase 2
95	Wilson		34,321,041	6/30/2003	Phase 2

Prepared by:
Division Of County Audit

Attachment B

Comptroller of the Treasury
State of Tennessee
Financial Reporting Standards
For County Governments, Component Units of County Government
and Special School Districts That Do Not Implement
Governmental Accounting Standards Board Statement 34

The Financial Reporting Standards of the Comptroller of the Treasury require local governments to issue financial statements in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the body established to promulgate standards of financial accounting and reporting for state and local governmental entities. GASB Statement 34 establishes new financial reporting requirements for states and local governments. All county governments, component units of county government and special school districts (Herein referred to as county governments) should implement GASB Statement 34 by the required date. County governments that do not implement GASB Statement 34 by the required implementation date shall be required to issue an annual financial report in compliance with the following Financial Reporting Standards established by the Comptroller of the Treasury.

1. The annual financial report shall include fund financial statements prepared on a prescribed basis of accounting that demonstrates compliance with financial reporting standards established by the Comptroller of the Treasury, State of Tennessee. These standards require the fund financial statements to be presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. Additional disclosures as required by GASB Statement 34 for long-term debt shall be included in the notes to the financial statements. These standards require the fund financial statements to be presented in conformity with all other generally accepted accounting principles that are applicable to fund financial statements. A county implementing Statement 34 at a later date will have already implemented all the provisions of Statement 34 that are applicable to fund financial statements.

2. The annual financial report shall not include the two government-wide statements required by Statement 34: a statement of net assets and a statement of activities.

3. Future standards adopted by the GASB for fund financial statements shall be applicable.

4. All audits of county governments shall be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

5. The auditor's report shall express an adverse opinion on the presentation of the basic financial statements in conformity with generally accepted accounting principles (GAAP). This adverse opinion is required by the American Institute of Certified Public Accountants (AICPA) Audit and Accounting guide, *Audits of State and Local Governments (GASB 34 Edition)*. However, as allowed by the *AICPA Codification of Auditing Standards*, Section AU 544.04, the auditor's report shall also express an opinion on the presentation of the basic financial statements in accordance with the basis of accounting prescribed by the Comptroller of the Treasury, which is a prescribed basis of accounting. The auditor's report shall also express an opinion on supplementary data as allowed by the *AICPA Codification of Auditing Standards*, Section AU 544.02.

6. The annual financial report shall include an introductory section, combining and individual fund section, and statistical section. The Comptroller of the Treasury determines the required statements, schedules, and other information to be included in this section. An example annual financial report required by the Comptroller of the Treasury is attached. All items listed in the table of contents of the example annual financial report are required if applicable in the circumstances.

7. Counties should maintain records for capital assets used in governmental activities, even though those records may not meet all the reporting requirements of GASB Statement 34. If the county maintains capital asset records that reflect the historical value of capital assets, two additional tables are required for the statistical section of the annual financial report. These tables are 1) capital assets by function and activity and 2) changes in capital assets by function and activity.

8. The annual financial report shall include a single audit section that contains the applicable auditor's reports and schedules required by *Government Auditing Standards* and OMB Circular A-133.

9. Discretely presented component units are required to be reported in a separate column on the government-wide financial statements by GASB Statement 34. However, counties that do not implement GASB Statement 34 will not be presenting government-wide financial statements. Therefore, financial statements for component units that meet the criteria for discrete presentation will not be presented in the annual financial report of the primary government of the county. Note disclosures for these component units as required by GAAP shall be included in the notes to the financial statements.

10. The county school department is a component unit that meets the criteria for discrete presentation and whose financial statements will not be presented in the annual financial report of the primary government of the county. A separate annual financial report is required for the county school department and shall follow the same financial reporting standards prescribed by the Comptroller of the Treasury for the primary government of the county.

11. The annual financial report of the county school department shall be presented as a separate report but published under the same cover as the primary government of the county.

12. The implementation dates for these standards are the same as the dates for implementation of GASB Statement 34.

For further information, contact:

Division of County Audit
Suite 1500
James K. Polk State Office Building
505 Deaderick Street
Nashville, Tennessee 37243-0269
615-401-7841

March 2003

Example Annual Financial Report

Annual Financial Report
Typical County, Tennessee

For county governments that do not implement GASB Statement 34: The financial statements and notes included in the example annual financial report are presented for illustrative purposes. Therefore, disclosures presented in the example notes are not always consistent with the example financial statements. GASB Statement 34 and all other generally accepted accounting principles applicable to fund financial statements should be referenced to ensure conformity with the provisions of those standards. Illustrative financial statements are not presented for all financial statements and schedules listed in the example table of contents. All items listed in the example table of contents are required if applicable in the circumstances.

Attachment C

Example Annual Financial Report

For County Governments That Do Not Implement GASB Statement 34

Table of Contents

Schedules of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual (Budgetary Basis):
________________ Fund
________________ Fund
________________ Fund
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Assets – Nonmajor Enterprise Funds
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Combining Statement of Net Assets – All Internal Service Funds
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Fund Net Assets – All Internal Service Funds
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Combining Statement of Fiduciary Net Assets – All Private-Purpose Trust Funds
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Schedule of Changes in Long-term Notes, Capitalized Leases, Other Loans
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Schedule of Bond and Interest Requirements by Year
Schedule of Transfers
Schedule of Salaries and Official Bonds of Principal Officials
Schedule of Detailed Revenues – All Governmental Fund Types (Optional)
Schedule of Detailed Expenditures – All Governmental Fund Types (Optional)
Schedule of Detailed Receipts, Disbursements and Changes in Cash (Optional)
Balances – City Agency Funds

<u>STATISTICAL SECTION</u>
Uncollected Taxes Filed in Chancery Court
Tax Rates and Assessments – Last Ten Years
Capital Assets by Function and Activity
Changes in Capital Assets by Function and Activity

Attachment C

INDEPENDENT AUDITOR'S REPORT

(Date)

Typical County Executive and
Board of County Commissioners
Typical County, Tennessee

To the County Executive and County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Typical County, Tennessee, as of and for the year ended June 30, 20XX, as shown on pages XX through XX, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Typical County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the county's governmental activities, business-type activities, and discretely presented component units are not reasonably determinable.

As described in Note I, Typical County, Tennessee, has prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. These standards require local governments that do not present government-wide financial statements to present fund financial statements in conformity with all the accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. These standards also require some additional disclosures to be included in the notes to the financial statements as described in Note I.

In our opinion, because of the effects of the matter discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Typical County, Tennessee, as of June 30, 20XX, or the changes in its financial position or its cash flows, where applicable for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Typical County, Tennessee, as of June 30, 20XX, and the respective changes in financial position and cash flows, where applicable thereof and the respective budgetary comparison for the General Fund and the Highway/Public Works Fund for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Typical County's basic financial statements. The accompanying combining and individual fund financial statements and miscellaneous schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and miscellaneous schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying information included in the introductory and statistical sections as listed in the table of contents has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on them.

As described in Note I, Typical County prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with standards adopted by the Comptroller of the Treasury of the State of Tennessee. This results in a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated (date of report on financial statements), on our consideration of Typical County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Very truly yours,

John G. Morgan
Comptroller of the Treasury

Typical County, Tennessee
Balance Sheet
Governmental Funds
June 30, 200X

	General	Highway/ Public Works	General Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Investments	$	$	$	$	$
Cash					
Inventories					
Investments					
Accounts Receivable					
Allowance for Uncollectibles					
Due from Other Governments					
Due from Other Funds					
Due from Component Units					
Taxes Receivable					
Allowance for Uncollectible Taxes					
Prepaid Items					
Accrued Interest Receivable					
Interfund Loans Receivable - Current					
Interfund Loans Receivable - Long-Term					
Notes Receivable - Long-Term					
Total Assets	$	$	$	$	$
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	$	$	$	$	$
Accrued Payroll					
Payroll Deductions Payable					
Compensated Absences Payable					
Claims and Judgments Payable					
Cash Overdraft					
Contracts Payable					
Retainage Payable					
Accrued Interest Payable					
Due to Other Funds					
Interfund Loans Payable - Current					

(continued)

Typical County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	General	Highway/ Public Works	General Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES (Cont.)					
Liabilities (Cont.)					
Interfund Loans Payable - Long-Term	$	$	$	$	$
Matured Bonds Payable					
Matured Interest On Bonds					
Other Current Liabilities					
Deferred Revenue - Current Taxes					
Deferred Revenue - Delinquent Taxes					
Other Deferred Revenues					
Total Liabilities	$	$	$	$	$
Fund Balances					
Reserved for Encumbrances	$	$	$	$	$
Reserved for Litter Enforcement Awards					
Reserved for Jail Improvements					
Reserved for Computer System - Register					
Reserved for Long - Term Interfund Loans					
Reserved for Long - Term Notes Receivable					
Unreserved:					
Designated for Equipment Purchases					
Undesignated					
Undesignated, Reported in Nonmajor:					
Special Revenue Funds					
Debt Service Funds					
Capital Project Funds					
Permanent Funds					
Total Fund Balances	$	$	$	$	$
Total Liabilities and Fund Balances	$	$	$	$	$

The notes to the financial statements are an integral part of this statement.

Typical County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 200X

	General	Highway/ Public Works	General Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local Taxes	$	$	$	$	$
Licenses and Permits					
Fines, Forfeitures and Penalties					
Charges for Current Services					
Other Local Revenues					
State of Tennessee					
Federal Government					
Other Governments and Citizen Groups					
Total Revenues	$	$	$	$	$
Expenditures					
Current:					
General Government	$	$	$	$	$
Finance					
Administration of Justice					
Public Safety					
Public Health and Welfare					
Social, Cultural, and Recreational Services					
Agriculture and Natural Resources					
Other General Government					
Highways					
Debt Service:					
Principal					
Interest					
Debt Issuance Costs					

(continued)

Typical County, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds (Cont.)

	General	Highway/ Public Works	General Debt Service	Other Governmental Funds	Total Governmental Funds
Expenditures (Cont.)					
Capital Projects	$	$	$	$	$
Total Expenditures	$	$	$	$	$
Excess (Deficiency) of Revenues Over Expenditures	$	$	$	$	$
Other Financing Sources (Uses)					
Bond Proceeds	$	$	$	$	$
Note Proceeds					
Proceeds from Capitalized Lease Obligations					
Proceeds of Refunding Bonds					
Premiums on Bonds Sold					
Other Loan Proceeds					
Proceeds from Sale of General Fixed Assets					
Discount on Bonds Sold					
Payments to Refunding Bond Escrow Agent					
Transfers In					
Transfers Out					
Total Other Financing Sources and Uses	$	$	$	$	$
Special and Extraordinary Items					
Special Item - Proceeds from Sale of Park Land	$	$	$	$	$
Extraordinary Item - Costs Related to Chemical Spill					
Total Special and Extraordinary Items	$	$	$	$	$

(continued)

Typical County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds (Cont.)

	General	Highway/ Public Works	General Debt Service	Other Governmental Funds	Total Governmental Funds
Net Change in Fund Balances	$	$	$	$	$
Fund Balances - Beginning					
Restatement for Interfund Loan Payable Previously Reported as General Long-Term Debt					
Fund Balances - Ending	$	$	$	$	$

The notes to the financial statements are an intergal part of this statement.

Typical County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 200X

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Revenues				
Local Taxes	$	$	$	$
Licenses and Permits				
Fines, Forfeitures and Penalties				
Charges for Current Services				
Other Local Revenues				
State of Tennessee				
Federal Government				
Other Governments and Citizen Groups				
Total Revenues	$	$	$	$
Expenditures				
Current:				
General Government				
County Commission	$	$	$	$
Board of Equalization				
County Executive				
County Attorney				
Election Commission				
Register of Deeds				
Planning				
Codes Compliance				
County Buildings				
Other General Administration				
Preservation of Records				
Risk Management				
Finance				
Accounting and Budgeting				
XXX				
XXX				
Administration of Justice				
XXX				
Public Safety				
XXX				
Public Health and Welfare				
XXX				

Typical County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Budget and Actual (Budgetary Basis)
General Fund (Cont.)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Social, Cultural, and Recreational Services				
XXX	$	$	$	$
Agriculture and Natural Resources				
XXX				
Other General Government				
XXX				
Total Expenditures	$	$	$	$
Excess (Deficiency) of Revenues Over Expenditures	$	$	$	$
Other Financing Sources (Uses)				
Bond Proceeds	$	$	$	$
Note Proceeds				
Proceeds from Capitalized Lease Obligations				
Other Loan Proceeds				
Proceeds from Sale of General Fixed Assets				
Transfers In				
Transfers Out				
Total Other Financing Sources and Uses	$	$	$	$
Special and Extraordinary Items				
Special Item - Proceeds from Sale of Park Land	$	$	$	$
Extraordinary Item - Costs Related to Chemical Spill				
Total Special and Extraordinary Items	$	$	$	$
Net Change in Fund Balances	$	$	$	$
Fund Balances - Beginning				
Restatement for Interfund Loan Payable Previously Reported as General Long-Term Debt				
Fund Balances - Ending	$	$	$	$

The notes to the financial statements are an integral part of this statement.

Note - When there is a difference between the budgetary basis of accounting and GAAP, a reconciliation must be provided for the general fund and for any major special revenue funds for which budgetary comparisons are presented. The reconciliation may be provided either on the face of the budgetary statement or in the notes to the financial statements. If the local government adopts a budget on the modified accrual basis of accounting plus encumbrances, columns may be added to the budgetary comparison statement that reflect how beginning and ending encumbrances are subtracted and added to actual expenditures on the GAAP basis to arrive at actual expenditures on the budgetary basis. No further reconciliation needs to be provided under the latter approach.

Typical County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Budget and Actual (Budgetary Basis)
Highway/Public Works Fund
For the Year Ended June 30, 200X

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Revenues				
Local Revenues	$	$	$	$
Charges for Current Services				
Other Local Revenues				
State of Tennessee				
Total Revenues	$	$	$	$
Expenditures				
Highways				
Administration	$	$	$	$
Highway and Bridge Maintenance				
Operation and Maintenance of Equipment				
Quarry Operations				
Other Charges				
Employee Benefits				
Capital Outlay				
Total Expenditures	$	$	$	$
Excess (Deficiency) of Revenues Over Expenditures	$	$	$	$
Fund Balances - Beginning				
Fund Balances - Ending	$	$	$	$

The notes to the financial statements are an integral part of this statement.

Note - When there is a difference between the budgetary basis of accounting and GAAP, a reconciliation must be provided for the general fund and for any major special revenue funds for which budgetary comparisons are presented. The reconciliation may be provided either on the face of the budgetary statement or in the notes to the financial statements. If the local government adopts a budget on the modified accrual basis of accounting plus encumbrances, columns may be added to the budgetary comparison statement that reflect how beginning and ending encumbrances are subtracted and added to actual expenditures on the GAAP basis to arrive at actual expenditures on the budgetary basis. No further reconciliation needs to be provided under the latter approach.

Typical County, Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 200X

	Enterprise Funds			
	Typical County Hospital	Other Enterprise Funds	Totals	Internal Service Funds
ASSETS				
Current Assets:				
Equity in Pooled Cash and Investments	$	$	$	$
Cash				
Inventories				
Investments				
Accounts Receivable				
Allowance for Uncollectibles				
Due from Other Governments				
Taxes Receivable				
Allowance for Uncollectible Taxes				
Prepaid Items				
Accrued Interest Receivable				
Other Current Assets				
Total Current Assets	$	$	$	$
Noncurrent Assets:				
Restricted Cash and Investments:	$	$	$	$
Customer Deposits				
Revenue Bond Debt Service Account				
Deferred Charges - Debt Issuance Costs				
Other Noncurrent Assets				
Capital Assets:				
Land				
Buildings and Improvements				
Accumulated Depreciation - Buildings and Improvements				
Machinery and Equipment				
Accumulated Depreciation - Machinery and Equipment				
Other Fixed Assets				
Accumulated Depreciation - Other Fixed Assets				
Construction in Progress				
Total Noncurrent Assets	$	$	$	$
Total Assets	$	$	$	$

(continued)

Typical County, Tennessee
Statement of Net Assets
Proprietary Funds (Cont.)

	Enterprise Funds			
	Typical County Hospital	Other Enterprise Funds	Totals	Internal Service Funds
LIABILITIES AND NET ASSETS				
Liabilities				
Current Liabilities:	$	$	$	$
Accounts Payable				
Accrued Payroll				
Compensated Absences Payable				
Accrued Liability for Landfill Closure/Postclosure Care Costs - Current				
Accrued Interest Payable				
Revenue Bonds Payable - Current				
Capital Outlay Notes Payable - Current				
Capitalized Lease Obligations - Current				
Total Current Liabilities	$	$	$	$
Current Liabilities Payable from Restricted Assets:				
Customer Deposits Payable	$	$	$	$
Revenue Bonds Payable				
Accrued Interest Payable				
Total Current Liabilities Payable from Restricted Assets	$	$	$	$
Noncurrent Liabilities:				
Accrued Liability for Landfill Closure/Postclosure Care Costs - Long-term	$	$	$	$
Revenue Bonds Payable - Long-term				
Capital Outlay Notes Payable - Long-term				
Capitalized Lease Obligations - Long-term				
Total Noncurrent Liabilities	$	$	$	$
Total Liabilities	$	$	$	$
Net Assets				
Invested in Capital Assets, Net of Related Debt	$	$	$	$
Restricted for Revenue Bond Debt Service				
Unrestricted				
Total Net Assets	$	$	$	$
Total Liabilities and Net Assets	$	$	$	$

The notes to the financial statements are an integral part of this statement.

Typical County, Tennessee
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 200X

	Enterprise Funds			
	Typical County Hospital	Other Enterprise Funds	Totals	Internal Service Funds
Operating Revenues				
Charges for Current Services	$	$	$	$
(Discounts and Allowances for Uncollectibles)				
Patient Service Charges Pledged as Security for Revenue Bonds				
Other Local Revenues				
Total Operating Revenues	$	$	$	$
Operating Expenses				
General Administration	$	$	$	$
Public Health and Welfare				
Waste Pickup				
Convenience Centers				
Transfer Station				
Landfill Operation and Maintenance				
Depreciation				
Amortization				
Total Operating Expenses	$	$	$	$
Operating Income (Loss)	$	$	$	$
Nonoperating Revenues (Expenses)				
Local Taxes	$	$	$	$
Solid Waste Grants				
Interest Income				
Unrestricted Gifts				
Loss on Disposal of Equipment				
Total Nonoperating Revenues (Expenses)	$	$	$	$
Income Before Contributions and Transfers	$	$	$	$
Capital Contributions - State Grant				
Transfers In				
Transfers Out				
Change in Net Assets	$	$	$	$
Total Net Assets - Beginning				
Total Nets Assets - Ending	$	$	$	$

The notes to the financial statements are an integral part of this statement.

Typical County, Tennessee
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 200X

	Enterprise Funds			
	Typical County Hospital	Other Enterprise Funds	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	$	$	$	$
Receipts from Interfund Services Provided				
Payments to Suppliers				
Payments to Employees				
Payments for Interfund Services Used				
Claims Paid				
Other Receipts (Payments)				
Net Cash Provided by (Used in) Operating Activities	$	$	$	$
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	$	$	$	$
Transfers from Other Funds				
Grants Received				
Local Taxes				
Net Cash Provided by (Used for) Noncapital Financing Activities	$	$	$	$
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Capital Debt	$	$	$	$
Capital Contributions				
Purchases of Capital Assets				
Principal Paid on Capital Debt				
Interest Paid on Capital Debt				
Proceeds from Sale of Capital Assets				
Other Receipts (Payments)				
Net Cash Provided by (Used for) Capital and Related Financing Activities	$	$	$	$

(continued)

Typical County, Tennessee
Statement of Cash Flows
Proprietary Funds (Cont.)

	Enterprise Funds			
	Typical County Hospital	Other Enterprise Funds	Totals	Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales and Maturities of Investments	$	$	$	$
Purchase of Investments				
Interest Received				
Net Cash Provided by (Used for) Investing Activities	$	$	$	$
Net Increase (Decrease) In Cash and Cash Equivalents	$	$	$	$
Cash and Cash Equivalents - Beginning of Year				
Cash and Cash Equivalents - End of Year	$	$	$	$
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$	$	$	$
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation Expense				
Amortization Expense				
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable				
(Increase) Decrease in Due from Other Governments				
(Increase) Decrease in Taxes Receivable				
(Increase) Decrease in Inventories				

(continued)

Typical County, Tennessee
Statement of Cash Flows
Proprietary Funds (Cont.)

	Enterprise Funds			
	Typical County Hospital	Other Enterprise Funds	Totals	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES (Cont.)				
(Increase) Decrease in Prepaid Items	$	$	$	$
(Increase) Decrease in Other Current Assets				
Increase (Decrease) in Allowance for Uncollectibles				
Increase (Decrease) in Allowance for Uncollectible Taxes				
Increase (Decrease) in Accounts Payable				
Increase (Decrease) in Accrued Payroll				
Increase (Decrease) In Compensated Absences Payable				
Increase (Decrease) In Accrued Liability for Landfill Closure Cost				
Increase (Decrease) In Customer Deposits				
Net Cash Provided by (Used in) Operating Activities	$	$	$	$
Noncash Investing, Capital, and Financing Activities				
Borrowing Under Capital Lease	$	$	$	$
Contributions of Capital Assets from Typical County				
Increase in Fair Value of Investments				

The notes to the financial statements are an integral part of this statement.

Typical County, Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 200X

	Flexible Benefits Trust Fund	Historic Courthouse Private-Purpose Trust Fund	Agency Funds
ASSETS			
	$	$	$
Equity in Pooled Cash and Investments			
Cash			
Receivables:			
Due from Other Governments			
Taxes Receivable			
Allowance for Uncollectible Taxes			
Accrued Interest Receivable			
Total Receivables	$	$	$
Investments at Cost:			
State Treasurer's Investment Pool	$	$	$
Investments at Fair Value:			
U.S. Government Securities			
Total Investments	$	$	$
Total Assets	$	$	$
LIABILITIES			
Accounts Payable	$	$	$
Due to Other Funds			
Due to Other Taxing Units			
Due to Litigants, Heirs and Others			
Other Current Liabilities			
Total Liabilities	$	$	$
NET ASSETS			
Held in Trust for Other Purposes	$	$	

The notes to the financial statements are an integral part of this statement.

Typical County, Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 200X

	Flexible Benefits Trust Fund	Historic Courthouse Private-Purpose Trust Fund
ADDITIONS		
Contributions:		
Employer	$	$
Plan Members		
Private Donations		
Total Contributions	$	$
Investment Earnings:		
Interest	$	$
Net Increase in the Fair Value of Investments		
Total Investment Earnings	$	$
Total Additions	$	$
DEDUCTIONS		
Benefits	$	$
Refunds of Contributions		
Administrative Expenses		
Educational Outreach		
Total Deductions	$	$
Change in Net Assets	$	$
Net Assets - Beginning		
Net Assets - Ending	$	$

The notes to the financial statements are an integral part of this statement.

TYPICAL COUNTY, TENNESSEE
EXAMPLE NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 20XX

(The note disclosures for blended component units should be incorporated into these note disclosures.)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Typical County's financial statements are not presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.* Some significant changes in the statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of a government's overall financial position and results of operations

- Government-wide financial statements prepared using full accrual accounting for all of a government's activities, including infrastructure (roads, bridges, etc.)

- A change in the fund financial statements to focus on the major funds

Typical County has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities and discretely presented component units. The two government-wide financial statements, the statement of net assets and the government-wide statement of activities should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. Typical County has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused Typical County's auditor to issue an adverse opinion on the county's financial statements.

Although Typical County's financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement 34. These standards require fund financial statements that are presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. Some additional disclosures are required to be included in the notes to the financial statements. These disclosures relate to long-term debt and certain component units.

A. Reporting Entity

Typical County is a public municipal corporation governed by an elected 21-member board. These financial statements present Typical County (the primary government) and its blended component unit. The blended component unit discussed below is included in the county's reporting entity because of the significance of its operational or financial relationships with the county. (**Although required by GAAP, the financial statements of the Typical County Library, a Special Revenue Fund, were not available from other auditors in time for inclusion in this report.**)

Blended Component Units – The Typical County Hospital provides services to all citizens of Typical County and is governed by a board comprising members of the County Commission. The County Commission must approve the hospital's budget. In addition, the County Commission must approve the issuance of any general obligation debt by the hospital, and the county is legally liable for the debt of the hospital. The hospital is reported as an Enterprise Fund. **(OR: There are no legally separate component units of Typical County that meet the criteria for being reported as part of the primary government by the blending method).**

Excluded Component Units – The following entities meet the criteria for discretely presented component units of the county. Since Typical County is presenting fund financial statements only, financial information of entities that meet the criteria for discretely presented component units is not included in the fund financial statements. If Typical County had presented government-wide financial statements, as required by generally accepted accounting principles, these entities would have been presented as a separate column in those statements to emphasize that they are legally separate from the county.

The Typical County School Department operates the public school system in the county, and the voters of Typical County elect its board. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

The Typical County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Rutherford County, and its governing body is appointed by Typical County's Board of County Commissioners. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Typical County School Department issues separate financial statements from those of the county. These financial statements are published as a separate report but under this same cover as the county's financial statements. Complete financial statements of the Typical County Emergency Communications District can be obtained from their administrative offices at the following address:

Administrative Offices:

Typical County Emergency Communications District
911 Main Street
Any Town, TN 00000

Related Organizations – The county's officials are also responsible for appointing the members of other organizations' boards, but the county's accountability for these organizations does not extend beyond making the appointments. The county executive nominates and the Board of County Commissioners confirms the board members of the Typical County Industrial Development Board and the Typical County Utility District. During the year ended June 30, 20XX, the county appropriated an operating subsidy of $5,000 to the utility district.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund financial statements of Typical County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other governmental funds and enterprise funds are aggregated into a single column on the fund financial statements. Internal service funds and fiduciary funds are reported in total in a single column by fund types.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Typical County considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on general long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the Debt Service Fund for payments to be made early in the following year. **(Change days for period of availability for governmental revenues and grant revenues based on the county's policy if different from above.)**

Property taxes for the period levied, (**include only if property taxes have been accrued**), in-lieu-of-tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. **(OR: Property taxes collected within 30 [or 60] days after year-end are considered to be immaterial for reporting purposes)**. Business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied **(delete if no enterprise funds are receiving property taxes)**. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Typical County reports the following major governmental funds:

> **General Fund**. This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> **Highway Public Works Fund**. This fund accounts for transactions of the Typical County Highway Department. The major sources of funding for the department are the county's share of state gasoline taxes and special state grants that are legally restricted to the construction and maintenance of county roads and highways.
>
> **General Debt Service Fund**. This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Typical County reports the following major enterprise fund:

Typical County Hospital. This fund accounts for the transactions of the county-owned hospital.

Typical County reports the following fund types:

Internal Service Funds. These funds account for vehicle maintenance services and risk management activities provided to other departments on a cost-reimbursement basis.

Private-purpose Trust Fund. This fund is used to account for resources legally held in trust for use by a non-profit organization devoted to educating the public about the county's historic courthouse by means of guided tours, publications, and special events. All resources of the fund, including any earnings on invested resources, may be used to support the organization's activities. There is no requirement that any portion of these resources be preserved as capital.

Other Employee Benefit Trust Fund. This fund, the Flexible Benefits Trust Fund, is used to account for operations of the flexible benefits program for Typical County employees. The primary source of resources is employees' payroll deductions.

Agency Funds. These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received from the state to be forwarded to the various cities in the county.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. Typical County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items Operating revenues and expenses for proprietary funds are those that result from providing services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

C. <u>Assets, Liabilities, and Net Assets or Equity</u>

1. ***Deposits and Investments***

For purposes of the Statement of Cash Flows, cash includes cash on hand, demand deposits, cash equivalents, and cash on deposit with the county trustee. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

State statutes authorize the government to make direct investments in bonds, notes, or treasury bills of the U.S. government, and obligations guaranteed by the U.S. government, or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county's own legally issued bonds or notes, the State Treasurer's Investment Pool and in repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Debt Service Fund. In addition, investments are held separately by several of the county's funds. **(Delete or modify this sentence if not applicable.)** Typical County has adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held at the balance sheet date. **(Delete or modify this sentence if not applicable.)**

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "interfund loans receivable-current/interfund loans payable-current" (the current portion of interfund loans) or "interfund loans receivable-long-term/interfund funds payable-long-term" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Long-term interfund loans, as reported in the fund financial statements, are offset by a fund balance reserve in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Government funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the "lien date." However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are not material for financial reporting purposes and thus are not accrued. **(OR: Property taxes collected within 30 days of year-end are considered available and accrued.)** This allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable or available. **(Change days for period of availability based on the county's policy.)**

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

3. *Inventories and Prepaid Items*

Inventories of governmental funds consist of expendable supplies held for consumption and are valued at the lower of cost or market based on the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventories of propriety funds are valued at the lower of cost or market based on the first-in, first-out method.

The costs of prepaid insurance and any other applicable costs that are prepaid are charged to operations over the period of coverage.

4. *Restricted Assets*

Certain resources of the Typical County Hospital's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next 12 months.

5. *Capital Assets*

Governmental funds do not capitalize the cost of capital outlays; they report capital outlays as expenditures upon acquisition.

Capital assets are reported in the statement of net assets of the proprietary funds. Typical County defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the enterprise funds is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the proprietary funds are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Machinery and equipment	5
Other fixed assets	10

6. *Compensated Absences*

It is the county's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since Typical County does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-term Obligations*

Only the matured portion (the portion that has come due for payment) of general-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements.

Liabilities and expenditures for other long-term obligations, including compensated absences, claims and judgments, special termination benefits, and landfill closure and care costs are recognized to the extent that the liabilities have matured (come due for payment) each period.

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. ***Fund Equity***

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specified purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the proprietary funds, equity is classified as net assets and displayed in three components:

a. *Invested in capital assets, net of related debt* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets

b. *Restricted net assets* – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation

c. *Unrestricted net assets* – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt"

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted for all governmental funds except the Constitutional Officers – Fees special revenue fund, the District Attorney

General special revenue fund, the capital projects funds, and the permanent fund. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Executive, County Attorney, etc.). Management may make revisions within major categories, but only the governing body may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. Therefore, actual amounts in the accompanying budgetary statement for the major funds are presented on this budgetary basis. A reconciliation of the differences between the budgetary basis and the GAAP basis is as follows:

	General Fund	Highway/ Public Works Funds
Expenditures and Other Uses:		
GAAP Basis	$ 0	$ 0
Add: Current-year Reserve for Encumbrances	0	0
Less: Prior-year Reserve for Encumbrances	0	0
Budgetary Basis	$ 0	$ 0

B. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations in the county executive major category (the legal level of control) of the General Fund by $50,000. Expenditures exceeded appropriations in the Public Library special revenue fund by $100,000. Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues in the case of the General Fund and by available fund balance in the case of the Public Library special revenue fund.

C. Deficit Fund Equity

The Drug Control special revenue fund had a deficit fund balance of $25,000 as of June 30, 20XX. The fund incurred expenditures that had not been appropriated by the County Commission, violating state statutes. The County Commission transferred funds from the General Fund after June 30, 20XX, to liquidate the deficit.

The General Capital Projects Fund had a fund deficit of $_______ at June 30, 20XX. This fund deficit resulted from the unperformed portions of construction projects of $________ being reserved as encumbrances. Funding for these future expenditures is expected to be received from the issuance of notes and/or bonds.

D. Cash Shortage

The Office of Trustee had a cash shortage of $________ as of June 30, 20XX. The County Commission and county attorney were taking action to collect this cash shortage. Details of this cash shortage are discussed in the Schedule of Findings and Questioned Costs section of this report.

E. Bond Proceeds Expenditure Purpose Violation

At June 30, 20XX, Typical County was in violation of the provisions of a bond resolution. During the year, Typical County issued general obligation bonds for school purposes. The county spent $_________ of these bonds to improve a county road passing in front of a high school, violating the bond resolution.

Typical County had not acted as of June 30, 20XX, to correct this noncompliance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Total cash and investments for all funds are as follows for Typical County:

Equity in Pooled Cash and Investments	$
Cash	
Investments	
Total	$

Typical County and the Typical County School Department participate in an internal cash and investment pool through the Office of Trustee. The Typical County School Department meets the criteria for a discretely presented component unit of Typical County. Since Typical County is presenting fund financial statements only, financial information for the Typical County School Department is not included in the fund financial statements. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund type's portion of this pool is displayed on its balance sheet or statement of net assets as equity in Pooled Cash and Investments. Cash and investments reflected in the fund financial represent nonpooled amounts held separately by individual funds.

Cash on the balance sheet and statements of net assets includes cash on hand and demand deposits. Total cash for all funds is analyzed as follows:

Cash on Hand	$
Cash in Bank	$
Total	$

Deposits – All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Separate disclosures concerning carrying amounts and bank balances of pooled deposits cannot be made for Typical County and the Typical County School Department since both pool their deposits and investments through the county trustee. The carrying amount of Typical County's and the typical County School Department's deposits with financial institutions was $__________, and the bank balance was $_______. These deposits are categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's agent or trust department in the entity's name. Category 3 includes deposits uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name. Category 1 deposits were ________.

Investments – Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government, and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government, or obligations guaranteed by the U.S. government, or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

Pooled and nonpooled investments are separately categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the entity's name. Funds invested in the State Treasurer's Investment Pool are not required to be categorized by generally accepted accounting principles. Separate disclosures for internally pooled investments cannot be made for Typical County and the discretely presented Typical County School Department, as previously noted for deposits.

POOLED INVESTMENTS

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
U.S. Government Securities XXXXXXX	$	$	$	$ 0	$ 0
Total	$	$	$	$ 0	$ 0
Investment in State Treasurer's Investment Pool				$ 0	$ 0
Total Pooled Investments				$ 0	$ 0

NONPOOLED INVESTMENTS

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Typical County Hospital Enterprise Fund:	$	$	$		
U.S. Government Securities XXXXXXX				$ 0	$ 0
Total	$	$	$	$ 0	$ 0
Typical County Constitutional Officers - Agency Fund:					
Clerk and Master: Investment in State Treasurer's Investment Pool				$ 0	$ 0
General Capital Projects Fund: Investment in State Treasurer's Investment Pool				0	0
Total Nonpooled Investments				$ 0	$ 0

B. Receivables

Notes receivable in the General Fund resulted from the sale of property to

Major City and are offset by the contra-account, other deferred revenues. The amount of the notes that is not expected to be collected within one year is $__________.

C. **Capital Assets**

Capital asset activity of the proprietary funds for the year ended June 30, 20XX, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	$	$	$	$
Construction in Progress				
Total capital assets not depreciated				
Capital assets being depreciated:				
Buildings and improvements				
Machinery and equipment				
Other fixed assets				
Total capital assets depreciated				
Less accumulated Depreciation				
Capital assets, net	$	$	$	$

Construction Commitments

At June 30, 20XX, the Highway Department had uncompleted construction contracts of approximately $500,000 for the construction of two bridges. Funding for these future expenditures is expected to be received from federal grants ($100,000), state grants ($100,000), and general obligation bond proceeds ($300,000). **(OR: Funding has been received for these future expenditures.)**

D. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 200X , is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Highway/Public Works	$
	General Debt Service	
Nonmajor governmental	General	

All the above balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund loans from to/other funds:

Receivable Fund	Payable Fund	Amount
General Debt Service	Highway/Public Works	$

The balance of $________ due to the General Debt Service Fund from the Highway/Public Works Fund resulted from a loan to the Highway Department for road construction purposes. The amount scheduled to be collected in the subsequent year is $________.

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government- General Fund	Component unit- Typical County- School Department	$

E. Interfund Transfers

Interfund transfers for the year ended June 30, 20XX, consisted of the following amounts:

	Transfer in:		
Transfer out:	General Fund	General Debt Service Fund	Nonmajor Governmental
General Fund			
Nonmajor Governmental Funds			
Typical County Hospital Enterprise Fund			
Total transfers out			

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The county made a one-time transfer of $3,000,000 from the General Fund to the General Debt Service Fund to retire capital outlay notes issued for courthouse construction.

F. Operating Leases

Typical County rents various office space and equipment, such as copiers, highway equipment, and medical equipment. The rent expenditures and/or expenses for the year ended June 30, 20XX, were $________ for the governmental funds and $_______ for the Typical County Hospital enterprise fund. One lease agreement requires termination upon 60 days' notice, while the others provide for termination on July 1 of any year in which the county fails to appropriate funds to meet rental payments. There are no provisions for contingent or sublease rentals in the agreements. The future minimum lease payments for these leases are as follows:

(Note: The requirement is to disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for obligations under capital and noncancelable operating leases.)

Year Ending June 30	Governmental Funds	Enterprise Funds
20XX	$	$
20XX		
20XX		
20XX		
20XX		
20XX to 20XX	______	______
Total	$_____	$_____

G. Capital Leases

On April 1, 1999, Typical County entered into a ten-year lease-purchase agreement for data processing equipment. The terms of the agreement require total lease payments of $100,000, plus interest of ten percent. Title to the equipment transfers to Typical County at the end of the lease period. The lease payments are made by the Typical County Hospital enterprise fund.**(This lease-purchase agreement was not entered into in compliance with state statutes. Note: If a violation of state statutes, this is also a disclosure that would need to be made under II.**

Stewardship, Compliance, and Accountability. The action taken by the county to address the violation would also need to be disclosed.)

On July 1, 2000, Typical County entered into a three-year lease-purchase agreement for a garbage truck. The terms of the agreement require total lease payments of $65,000, plus interest of seven percent. Title to the equipment transfers to Typical County at the end of the lease period. The General Fund is making the lease payments.

Since Typical County is presenting fund financial statements only, the present value of minimum lease payments under lease agreements has not been reported as a liability in the financial statements of the governmental funds. General long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but Typical County is not presenting government-wide financial statements. Capital leases are reported as a liability in the fund financial statements of enterprise funds. Future minimum lease payments and the net present value under of these minimum lease payments as of June 30, 20XX, were as follows:

Year Ending June 30	Governmental Funds	Enterprise Funds	
20XX	$	$	$
20XX			
20XX			
20XX			
20XX			
20XX-20XX			
Total Minimum Lease Payments	$	$	$
Amounts Representing Interest			
Present Value of Minimum Lease Payments	$	$	$

H. Long-term Debt

General Long-term Debt

Since Typical County is presenting fund financial statements only, general long-term debt is not reported as a liability in the financial statements of the governmental funds. General long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but Typical County is not presenting government-wide financial statements.

The following is a summary of changes in general long-term debt for the year ended June 30, 20XX:

	Bonds	Notes	Capital Leases
Balance, July 1, 20XX	$ 0	$ 0	$ 0
Additions	0	0	0
Deductions	0	0	0
Balance, June 30, 20XX	$ 0	$ 0	$ 0
Balance Due Within One Year	$ 0	$ 0	$ 0

	Other Loans	Compensated Absences	Landfill Closure/ Postclosure Care Costs
Balance, July 1, 20XX	$ 0	$ 0	$ 0
Additions	0	0	0
Deductions	0	0	0
Balance, June 30, 20XX	$ 0	$ 0	$ 0
Balance Due Within One Year	$ 0	$ 0	$ 0

The additions to long-term notes payable represent capital outlay notes issued by Typical County. These notes will be retired from the county's General Debt Service Fund. Compensated absences payable will be retired from the employing fund, primarily the General Fund and the Highway/Public Works Fund. The General Fund will retire landfill closure/postclosure care costs.

The county issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

General obligation bonds and capital outlay notes are direct obligations and pledge the full faith and credit of the government. General obligation bonds and capital outlay notes outstanding were issued for original terms of up to ________ years for bonds and up to ________ years for notes. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All general obligation bonds and capital outlay notes outstanding as of June 30, 200X, will be retired from the General Debt Service Fund.

General obligation bonds and capital outlay notes outstanding as of June 30, 20XX, are as follows:

Purpose	Interest Rate		Amount
General Obligation Bonds	0 to 6.5%	$	35,000,000
General Obligatin Bonds - Refunding	2.25 to 5.25		14,000,000
Capital Outlay Notes	0 to 6		8,250,000

During the 1999-2000 year, Typical County entered into a loan agreement with the Montgomery County Public Building Authority. Under this loan agreement, the authority loaned Typical County $4,000,000 on an as-needed basis for the construction of a new health department. Interest on the variable rate loan is paid at the Bond Market Association Municipal Swap Index Rate and is reset semiannually.

During the 20XX-XX year, Typical County entered into a loan agreement with the Montgomery County Public Building Authority. This loan agreement provided for the authority to make $3,000,000 available for loan to Typical County on an as-needed basis for the construction of a new elementary school. As of June 30, 20XX, Typical County had borrowed $1,700,000 of these loan proceeds. An amortization schedule has not been prepared for this loan, since the county has not borrowed the full amount of the loan proceeds and the loan is repayable at a variable rate.

During the 20XX-XX year, Typical County entered into a loan agreement with the Sevier County Public Building Authority. This loan agreement provided for the authority to issue variable rate bonds of $7,500,000 and loan the proceeds to Typical County on an as-needed basis for the construction of a new high school. As of June 30, 20XX, Typical County had borrowed $3,400,000 of these loan proceeds. An amortization schedule has not been prepared for this loan, since the county has not borrowed the full amount of the loan proceeds and the loan is repayable at a variable rate.

All three of the above loan agreements are included in other loans payable and will be retired from the General Debt Service Fund.

Debt service requirements to amortize all general obligation bonds, notes, and other loans outstanding as of June 30, 20XX, are presented in the following table. As stated above, the table does not include loan agreements of $1,700,000 and $3,400,000, since the full amount of these loans has not been borrowed and the loans are repayable at a variable rate.

Year Ending June 30	Bonds Principal	Bonds Interest	Notes Principal	Notes Interest
2002	$ 0	$ 0	$ 0	$ 0
2003	0	0	0	0
2004	0	0	0	0
2005	0	0	0	0
2006	0	0	0	0
2007-2011	0	0	0	0
2012-2016	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0

Interest on the variable-rate parking facility revenue bonds is paid at the Bond Market Association Municipal Swap Index rate and is reset semiannually. The interest requirements were determined using the rate in effect as of date of the financial statements.

Total general obligation bond ($68,628,561) requirements differ with the amortization schedule above by $17,966,439 because the full face value of deep discount debt principal is included in the amortization schedule.

A balloon payment of $1,000,000 has been reflected in the note schedule for the year ended June 30, 20XX. It is management's intent to extend the maturity of this note another nine years. State law requires that one-twelfth of the note principal be retired each year.

There is $_________ available in the General Debt Service Fund to service general long-term debt. General bonded debt per capita amounted to $_______, based on the 2000 federal census. Total debt per capita, including bonds, notes, and other loans, amounted to $_________, based on the 2000 federal census.

Revenue Bonds

Typical County issues bonds where the county pledges income derived from the acquired or constructed assets to pay debt service. No amounts outstanding at the end of the current fiscal year related to bonds issued in prior years. During the year, $______ of revenue bonds were issued to finance construction projects to both expand existing hospital facilities and construct additional facilities. These bonds will be retired by the Typical County Hospital enterprise fund. Revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Hospital facilities	_____________	________

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30, 20XX	Principal	Interest
20XX		
20XX		
20XX		
20XX to 20XX	________	_______
Total	$______	$_____

Advance and Current Refundings (Year of Advance Refunding)

On March 16, 20XX, Typical County advance refunded a general obligation bond issue with a separate general obligation bond issue. The county issued $___________ of general obligation refunding bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust to generate resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered defeased, and the liability is no longer considered to be part of the county's general long-term debt. As a result of the advance refunding, total debt service payments over the next 20 years will be reduced by $___________, and an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of $___________ was obtained.

In addition, Typical County issued $ ______ of revenue bonds for a current refunding of $______ of other revenue bonds of the Typical County Hospital. The refunding was undertaken to remove restrictive bond covenants associated with the refunded revenue bonds and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $_______. This amount is netted against the new debt and amortized over the new debt's life, which is shorter than the refunded debt. The transaction also resulted in an economic gain of $_________ and a reduction of $_________ in future debt service payments.

Defeasance of Prior Debt (Periods following an advance refunding in which the old debt is still outstanding)

In prior years, Typical County defeased certain outstanding general obligation bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The trustee is empowered and required to pay all principal and interest on the defeased bonds as originally scheduled. Accordingly, the trust accounts and the defeased bonds are not considered to be part of the county's general long-term debt. At June 30, 20xx, the following outstanding notes and bonds are considered defeased:

1992 General Obligation Series	$___________
1994 General Obligation Series	___________

I. Short-term Debt

Typical County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the General Debt Service Fund. These notes were necessary because funds were not available to meet debt service payments coming due before current tax collections. Short-term debt activity for the year ended June 30, 20XX, was as follows:

	Beginning Balance	Issued	Redeemed	Balance
Tax anticipation notes				

J. Segment Information

(Note: Governments that use enterprise funds are required to report segment information in the notes to the financial statements in certain circumstances. Segment information was also required under the previous reporting model. However, the definition of a segment was changed by GASB Statement 34 as amended. Previously, individual funds were considered segments. A segment is identified as an identifiable activity or grouping of activities that:

- **Is reported as or within an enterprise fund or another stand-alone entity for which one or more bonds or other debt instruments (such as certificates of participation) are outstanding,**
- **Has a revenue stream pledged in support of that debt, and**
- **Is subject to reporting requirements by an outside party requiring separate accounting for the activity's assets, liabilities, revenues, expenses, gains, and losses (such as those found in bond covenants).**

In addition, a government with an individual fund that is both reported as a major fund in the fund financial statements and meets the definition of a segment is not required to present the segment disclosures. Most Tennessee counties would not be required to disclose segment information in the notes under these requirements. If a county accounted for a water department and sewer department in one fund and those activities were identified as segments, the following example is an illustration of the required note disclosure).

Typical County issues separate revenue bonds to finance its water and sewer departments. The two departments are accounted for in a single fund, but investors in those bonds rely solely on the revenue generated by the activities for repayment. Summary financial information for each department is presented below. The Water Department operates the county's water supply system. The Sewer Department operates the county's sewage treatment plant, sewage pumping stations, and collection systems.

CONDENSED STATEMENT OF NET ASSETS	**Water Department**	**Sewer Department**
Assets:		
Current Assets	$	$
Interfund Receivables		
Capital Assets		
Total Assets		
Liabilities:		
Interfund Liabilities		
Other Current Liabilities		
Noncurrent Liabilities		
Total Liabilities		
Net Assets:		
Invested in Capital Assets, Net of Related Debt		
Restricted		
Unrestricted		
Total Net Assets	$	$

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating Revenues (Pledged Against Bonds)	$	$
Depreciation Expense		
Other Operating Expenses		
Operating Income		
Nonoperating Revenues (Expenses):		
Investment Income		
Interest Expense		
Capital Contributions		
Transfers Out		
Change in Net Assets		
Beginning Net Assets		
Ending Net Assets	$	$

CONDENSED STATEMENT OF CASH FLOWS

Net Cash Provided (Used) by:		
Operating Activities	$	$
Noncapital Financing Activities		
Capital and Related Financing Activities		
Investing Activities		
Net Increase (Decrease)		
Beginning Cash and Cash Equivalents		
Ending Cash and Cash Equivalents	$	$

K. **Prior-year Restatements**

During 1998, the Highway/Public Works Fund borrowed $______ for road construction from the General Debt Service Fund. The terms of this loan provided for repayment over six years at an interest rate of four percent. The General Debt Service Fund recorded this interfund loan as a receivable. However, the Highway/Public Works Fund did not record the interfund loan as a fund liability. The liability for the interfund loan was recorded as general long-term debt. GASB Statement 34 provides that interfund loans be reported as interfund receivables and payables, never as general long-term liabilities. Consequently, fund equity of the Highway/Public Works Fund was restated and reduced as of the beginning of the year in the amount of $_______, the balance of the interfund loan existing as of that date.

IV. OTHER INFORMATION

A. **Risk Management**

Example 1 – Commercial Insurance Only
It is the policy of the county to purchase commercial insurance for the risks of losses to which it is exposed. These risks included general liability, property, and casualty, workers' compensation, employee health and accident, and environmental. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Example 2 – Public Entity Risk Pool for Liability and Property and Casualty
The county is exposed to various risks related to general liability and property and casualty losses. During 20XX, the county decided it was more economically feasible to join a public entity risk pool instead of purchasing commercial insurance for general liability and property and casualty coverage. The county joined the Local Government Property and Casualty Fund (LGPCF), which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties.

The county pays an annual premium to the LGPCF for its general liability, property, and casualty insurance coverage. The creation of the LGPCF provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding $100,000 for each insured event.

The county continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident, and environmental. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Example 3 – Public Entity Risk Pool for Employee Health Insurance
During 20XX, the county joined the Local Government Group Insurance (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that were established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

The county continues to carry commercial insurance for all other risks of loss, including general liability, property, casualty, workers' compensation, and environmental. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Example 4 – Employee Health Insurance, Internal Service Fund
The county has chosen to establish the Employee Health Insurance Fund for risks associated with the employees' health insurance plan. The Employee Health Insurance Fund is accounted for as an Internal Service Fund where assets are set aside for claim settlements. The county retains the risk of loss to a limit of $125,000 per specific loss and 125 percent of expected claims. The maximum liability amounted to $5 million for the year. The county obtained a stop/loss commercial insurance policy to cover claims beyond this liability.

All full-time employees of the primary government and the Typical County School Department are eligible to participate. A premium charge is allocated to each fund that accounts for full-time employees. This charge is based on actuarial estimates of the amounts needed to pay prior- and current-year claims and to establish a reserve for catastrophe losses. That reserve was $230,000 at June 30, 20XX, and is reported as a designation of the fund equity of the Employee Health Insurance Fund. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Employee Health Insurance Fund established claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been insured but not reported. Claims liabilities include incremental claim adjustment expenditures/expenses, if any. In addition, estimated recoveries, if any, on settled claims have been deducted from the liability for unpaid claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

Employee Insurance - Health Fund

	Beginning of Fiscal-Year Liability	Current-Year Claims and Estimates	Payments	Balance at Fiscal Year-end
20xx-xx	$ 675,000	$ 110,000	$ (93,000)	$ 692,000
20xx-xx	692,000	149,000	(68,000)	773,000

The county continues to carry commercial insurance for all other risks of loss, including general liability, property, casualty, workers' compensation, comprehensive, and environmental. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Accounting Change

At the beginning of the year, Typical County adopted certain provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.* As previously discussed under the Summary of Significant Accounting Policies, Typical County elected to implement only the provisions of Statement 34 that relate to the fund financial statements. These provisions eliminated the general long-term debt account group and narrowed the definition for the fiduciary fund types. Consequently, one of the county's expendable trust funds, the District Attorney General Fund, was reclassified into a special revenue fund. Another expendable trust fund, the flexible benefits trust fund, was reclassified into an other employees' benefit trust fund, a new fiduciary fund type. The county's remaining expendable trust fund, the Historic Courthouse Fund, was reclassified into a private-purpose trust fund, also a new fiduciary fund type. The county's only nonexpendable trust fund, the Children's Home Endowment Fund, was reclassified into a permanent fund, a new governmental fund type.

At the beginning of the year, Typical County also adopted the provisions of GASB Interpretation 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.* The provisions of Interpretation 6 are applicable to governmental funds following the modified accrual basis of accounting. Under these provisions, fund liabilities and expenditures are accrued for the matured portion of general long-term indebtedness (the portion that has come due). Fund liabilities and expenditures for compensated absences, claims and judgments, special termination benefits, and landfill closure are care costs are recognized to the extent that the liabilities have matured (come due for payment). Typical County was already following these provisions in governmental fund financial statements. Therefore, Interpretation 6 had no effect on the governmental fund financial statements.

C. **Related-party Transaction**

The Typical County Hospital enterprise fund has entered into a management consulting contract with a regional executive training group. The training group is owned and operated by a member of the County Commission. The contract is for a six-month management evaluation study and has a set fee of $______. As of the year-end, the hospital had remitted a 20 percent down payment. The remainder of the contract is due and payable after services are completed.

D. **Subsequent Events**

On August 1, 20XX, Typical County was officially notified that its application for a construction grant from the Department of Housing and Urban Development (HUD) was approved. Under the grant, the county is to construct a recreational park at a total cost of approximately $__________ with HUD financing 100 percent. Construction is expected to begin in late 20XX with completion tentatively scheduled for mid-20XX.

On August 2, 20XX, Typical County issued general obligation bonds of $____________ to construct a new jail.

Doug Davidson left the Office of Sheriff on August 31, 20XX, and was succeeded by Rob Riner.

E. **Change in Administration**

Joe Jones was removed from the Office of Road Superintendent by the Road Commission effective September 30, 20XX. The Highway Department was then administered by Bill Black until November 10, 20XX, at which time the Road Commission officially appointed him road superintendent.

F. **Contingent Liabilities**

Example 1:
The county and the sheriff are defendants in litigation seeking damages of $________ for alleged violations of a former jail inmate's civil rights. The county attorney is of the opinion that the defendant will prevail.

The county is involved in several pending lawsuits. The county attorney estimates that the potential claims not covered by insurance resulting from such litigation would not materially affect the county's financial statements.

Example 2:
The county is involved in several pending lawsuits. The county attorney has not responded to requests to provide estimates of the potential claims not covered by insurance. However, management believes that any claims resulting from such litigation would not materially affect the county's financial statements.

Example 3:
The county is involved in several pending lawsuits. The county attorney has not responded to requests to provide estimates of the potential claims not covered by insurance. Because of the nature and magnitude of these lawsuits, a reasonable estimate or range of potential loss to the county resulting from these lawsuits cannot be made. In addition, the auditors have qualified their report because of the lack of disclosure concerning these lawsuits.

G. Joint Ventures

Joint Ventures - The Memorial Stadium, a sports and recreational facility, is a joint venture of Typical County and Major City. The Memorial Stadium Authority (MSA), a public benefit corporation, was created to oversee the stadium's operations. On dissolution of the corporation, the county and city will equally share the MSA's net assets. The MSA is governed by an appointed board that comprises 14 members, seven of whom are appointed by the Typical County Commission and seven of whom are appointed by the city. The county and city are each obligated by contract to remit $250,000 annually to support the MSA's operating revenues, and each is entitled to one-half of the MSA's annual operating income, if any. In accordance with the joint venture agreement, the MSA remitted $350,000 to the county for 2001. The county's net investment should be reported in the county's capital assets. However, Typical County is only presenting fund financial statements, which do not report capital assets. The county's equity interest in the MSA was $2.3 million at June 30, 20XX.

Typical County is a participant with North, South, and West Counties in a multi-county Municipal Solid Waste Planning Region. This entity was created to promote the preparation of municipal solid waste regional plans to effectively and efficiently manage solid waste. This entity is governed by a 13-member board of appointees from North County (2), South County (2), Typical County (3), West County (2), Major City (1), the City of Minor (1), and the City of Any Town (2). Funding is provided from member contributions and grants. There are no separately issued financial statements for the Municipal Solid Waste Planning Region. Typical County has been designated as the fiscal agent for the Planning Region and accounts for its activities through the Joint Venture Fund (Agency Fund), which is included in the financial statements of this report.

The Major City-Typical County Airport is operated through a joint operations agreement between Typical County and Major City, Tennessee. The agreement created a joint board of directors to manage the airport. The board comprises five members, two of whom are appointed by the Typical County Commission, two by Major City, and one jointly appointed by Typical County and the Major City. Typical County has control over budgeting and financing the joint venture only to the extent of its representation by its board members. Typical County does not have an equity interest in this joint venture.

To operate and maintain a jointly owned parking garage, Typical County and the City of Any Town created the Joint Parking Authority of Typical County. The Joint Parking Authority comprises seven members, three of whom are appointed by Typical County, three by the City of Any Town, and one jointly by the county executive and mayor. Typical County has control over budgeting and financing the joint venture only to the extent of representation by the three board members. Typical County does not have an equity interest in this joint venture.

Complete financial statements for the Memorial Stadium and the Major City-Typical County Airport can be obtained from their respective administrative offices at the following addresses:

Administrative Offices:

Memorial Stadium
321 Stadium Drive
Major City, TN 30000

Major City–Typical County Airport
654 East Street
Major City, TN 30000

H. Jointly Governed Organization

Jointly Governed Organizations - The county, in conjunction with North and South Counties and the cities of Major, Any Town, and Minor, has created the Regional Planning Commission (RPC). The RPC's board comprises three members from each county and one member from each municipality. The county does not have any ongoing financial interest or responsibility for the entity. The county appropriated $60,000 to the RPC for the year ended June 30, 20XX.

I. Landfill Closure/Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its Mill Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Solid Waste Disposal Fund reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $10.4 million reported as landfill closure and postclosure care liability at June 30, 20xx, represents the cumulative amount reported to date based on the use of 80 percent of the estimated capacity of the landfill. Nine million dollars of this cumulative amount is related to the use of the landfill prior to July 1, 20xx. A prior-period adjustment was made to beginning retained earnings to record this amount. The landfill will recognize the remaining estimated cost of closure care of $3.1 million as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 20xx. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Management has decided to make annual contributions to a trust account to finance closure and postclosure care. At June 30, 20xx, investments of $7,800,000 ($7,900,000 fair value) are held for these purposes. These are reported as restricted assets on the balance sheet. The county expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may be need to covered by charges to future landfill users or from future tax revenue.

J. **Retirement Commitments**

(Obtain from the Comptroller of the Treasury, Division of County Audit)

K. **Other Postemployment Benefits**

In addition to the retirement commitments described in Note IV.J., Typical County provides postretirement health care benefits, in accordance with contract provisions, to all employees who retire from the county on or after age 60 with at least 15 years of service. Currently, 100 retirees meet those eligibility requirements. The county reimburses 80 percent of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the county. During the year, expenditures of $300,000 were recognized for postemployment health care. Approximately $5,000 of the $7,000 increase in expenditures over the previous year was caused by the addition of dental benefits, effective July 1, 20xx.

L. **OFFICE OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING**

(Example of 1957 Acts)

Typical County operates under the provisions of the Fiscal Control Acts of 1957. These acts provide for a central system of central accounting, budgeting, and purchasing covering all funds administered by the county executive and highway superintendent. These funds are maintained in the Office of Central Accounting, Budgeting, and Purchasing under the supervision of the director of finance.

(Example of Private Act)
Typical County operates under Chapter 49, Private Acts of 1979, as amended. This act provides for a system of central accounting and budgeting covering all county funds. Accounting records of all funds are maintained under the supervision of the director of finance.

(Example of 1981 Act)
Typical County operates under the provisions of the County Financial Management System of 1981. This act provides for a system of central accounting, budgeting, and purchasing for all county departments. The act provides for the creation of a Finance Department operated under the direction of the finance director.

M. PURCHASING LAWS

Office of County Executive

Purchasing procedures for the County Executive's Office are governed by the County Purchasing Law of 1983, Section 5-14-201, Tennessee Code Annotated. This act provides for all purchases exceeding $5,000 (excluding emergency purchases) to be made based on competitive bids solicited through newspaper advertisement.

Office of Highway Superintendent

Purchasing procedures for the Highway Department are governed by provisions of Section 54-7-113, Tennessee Code Annotated (Uniform Road Law), which requires all purchases exceeding $5,000 to be made on the basis of publicly advertised competitive bids.

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TYPICAL COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF TYPICAL COUNTY, TENNESSEE
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